



## **Carl Moyer Program Advisory: 07-003**

### **Earned Interest Requirements**

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Earned interest (also known as interest income) is not typically generated in State grant programs because the State makes payments on a reimbursement basis. However, the State pays limited advances to districts for the Carl Moyer Program (for information on these advances please see the 2005 Carl Moyer Program Guidelines pages II-17 to II-18). This exception was granted for program efficiency, to allow for the uninterrupted flow of funds to districts to pay for projects. As a result of these advances, there are instances when interest accrues on State Carl Moyer Program funds held in district accounts.

This advisory provides guidance regarding how to identify, track, utilize and report on earned interest. The 2005 Carl Moyer Program Guidelines (page II-18) require districts to report to the ARB on the amount of earned interest accumulated. The earned interest must be expended on Carl Moyer Program eligible expenses (projects and administration) and earned interest project information must be included in reports submitted to ARB.

#### **What is earned interest?**

Earned interest is generated from state Carl Moyer Program funds held in interest bearing accounts. The earned interest is compounded and therefore generates additional earned interest.

#### **How should districts calculate and track earned interest?**

Prior to the issuance of this advisory, a district may have generated interest over a period of years before obligating the funds to projects. Districts must track all interest earned (including additional earned interest) on all Carl Moyer Program funds. Districts must also track all expenditures of earned interest. Generally accepted accounting practices must be used to track interest earned and expended for the Carl Moyer Program.

The ARB strongly encourages districts to maintain their Carl Moyer Program funds in a segregated account. A segregated Carl Moyer Program account makes it possible to directly track (rather than calculate) the interest earned from Carl Moyer Program funds. If a district keeps its Carl Moyer Program funds in a non-segregated account, the district must maintain accounting records (e.g. general ledger) that first separates program funds from other funds administered by the district and then further separates earned interest and the related expenditures. The calculation of interest must be based on an average daily balance or some other reasonable method of reallocating the proceeds from the fund back into the program. Interest must be tracked such that it is separately

identifiable from other program funds. Each district's methodology for calculating Carl Moyer Program interest must be consistent with how it calculates earned interest for its other fiscal programs.

### **What can districts fund with earned interest?**

District must spend earned interest generated from Carl Moyer Program funds on projects and/or administrative expenses that are eligible under the Carl Moyer Program Guidelines. Districts that earn interest collectively on both project and administration funding can use a portion of this earned interest on program administration, as follows:

- Districts with one million or more inhabitants may spend up to five percent of earned interest on administrative expenses.
- Districts with less than one million inhabitants may spend up to ten percent of earned interest on administrative expenses.

All remaining earned interest must be used to fund additional Carl Moyer Program eligible projects.

Districts that segregate their Carl Moyer Program funds into project and program administration accounts must use all interest earned in the project account to fund eligible Carl Moyer Program projects, and may use interest earned in the program administration account for either program administration or Carl Moyer Program projects.

### **What process should a district use to obligate earned interest?**

Districts may consider any Carl Moyer Program eligible project that has been submitted to the districts. The districts' policies and procedures manual must outline the selection process for earned interest-funded projects. Districts should follow the same process for obligating funds to earned interest-funded projects as the district uses for the Carl Moyer Program-funded projects. Districts should also use the same boiler plate contract language for earned interest-funded projects as the district uses for the Carl Moyer Program-funded projects.

### **What should a district do if the earned interest in a given year is insufficient to fund a complete project?**

Districts should make every effort to obligate earned interest in a timely manner. Districts may combine earned interest from a particular fiscal year's Carl Moyer Program allocation with the State Carl Moyer Program funds from that same fiscal year to fund a single project. As with Carl Moyer Program funds, residual amounts of earned interest may also be combined with Carl Moyer Program and/or earned interest from previous years to fund a single project. Districts should see Advisory 04-008 (which is accessible at <http://www.arb.ca.gov/msprog/moyer/advisories/advisories.htm>) for further guidance on residual funds. When combining funds from different fiscal years, the district must use the Guidelines in effect at the time of the obligation.

## **How should districts report the earned interest projects to ARB?**

Interest is tracked from the time it is generated in the district's account or, if applicable, is received by the district from an external account. The Year 7 Final Report and Year 8 Annual Report form requests information regarding interest accrued through December 31, 2006. For this reporting cycle, districts may choose to report on the status of interest accrued through December 31, 2006 or through June 30, 2007. Districts reporting on interest through June 30, 2007 should modify the reporting form to indicate reporting of interest accrued through this later date. Districts must also report on earned interest projects through the appropriate spreadsheet/CARL, consistent with the reporting of other Carl Moyer Program projects. ARB shall work through the Program Administration Working Group to include earned interest expenditure deadlines and other information in the revisions to the 2005 Carl Moyer Program Guidelines (scheduled to be considered by the Board in February 2008).